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FINANCIAL NEWS  
AND THE SITUATIONInvestment Buying Increases  
and Emphasizes Sustained  
Market Improvement.

## CREDIT STILL STRAINED

Movement to Define 'Essential  
Loan' Is Spreading Over  
This Country.

By WILLIAM JUSTUS BOIES.

A material expansion of investment activity followed last week's successful sale of bond issues aggregating nearly \$100,000,000 and emphasized the potential strength of a bond market held in check ever since acute credit strain began several months ago. The pronounced success of the Swiss Government \$100,000,000 loan had an excellent sentimental effect on the market, resembling in that regard the dramatic response of the public to the Pennsylvania Railroad loan offering of April, 1918. That proved to be the turning point in the investment situation, following the pronounced unsettlement of the panic disturbance the year before, when the banks' position as to the machinery for the facilities at hand today for relieving an overstrained money market.

## Investment Strength.

That partial recovery in security prices did not attract broad outside support, although there were evidences that conditions were favorable to a genuine expansion of investment interest and that increased absorption of safe securities might be looked for soon unless the money market should develop unexpected complications. The bond market's tone was better, and negotiations underway indicate that other attractive investment propositions will be brought out if the public inquiry continues to broaden on the lines of the last few days. Those developments have shown that a 7 1/2 or an 8 per cent. income return assured for ten years, with a valuable conversion privilege or a premium for redemption at the end of the term was proving an irresistible attraction to the person with money to invest, marking a gratifying change in the situation, and may prepare the way for a sustained revival of investment interest all around.

## Continued Credit Strain.

Too much need not be taken for granted in that connection, because the credit strain continues with little abatement in this country and Europe. The Bank of England a week ago reported the lowest reserve ratio shown in half a century, and the next day our own Federal reserve institutions, with one exception, announced the smallest reserve basis since the system was established in November, 1914. Furthermore, the volume of Federal reserve notes in circulation on July 2 touched \$1,161,814,000, the highest total ever reported. Inasmuch as the United States and Great Britain represent proportionately greater banking strength than any of the other nations, it is obvious that the whole world is suffering from a credit shortage of serious proportions. This is likely to be a governing factor in investment operations until the close of 1920 at least, because in no peace year since civil war days has the pressure for credit accommodation been as overwhelming as it now is.

## Loan Differentiation.

This accounts for extraordinary requests pouring into the Reserve Board from all sections of the country and asking that body to define essential and non-essential loans that the member banks might have a specific ruling to guide them in extending credit to customers. The board has declined consistently to do this in the belief that the lending bank itself was better able to tell what industries were essential to the welfare of its community than were any other agency. It is true that in some quarters there is any governing board not in touch with local conditions. The board has not even attempted to instruct the banks as to what kind of paper should be taken, but has contented itself with a general statement covering the necessity of curtailing loans for unproductive purposes. This has excited much criticism in some quarters on the theory that the board should be more explicit in a matter of such importance because various business interests were suffering from the failure of the commercial banks to follow a uniform policy in making necessary advances to various industries.

## Board's Attitude.

In commenting on the necessity of having the Reserve Board say daily what an essential loan really is, the current weekly letter of the Bankers' Trusts Corporation, dealing with the financial situation, says: "The Federal Reserve Board will be compelled to define an essential loan. Constantly increasing discount rates would ultimately bring contraction and deflation, but not before productive enterprise had been seriously crippled. If production is not to be handicapped by an inadequacy of credit at reasonable rates, it is clearly necessary that steps should be taken to establish what is an essential loan with the general welfare of the nation in view—rather than that of any individual section."

## Another View.

Unless the Reserve Board changes its attitude it will not attempt to rule on the question at all, but will continue to follow the course outlined by Gov. Harding to representatives of the banking industry, who, after saying that the board had never undertaken to differentiate between different classes of loans, added: "While the board has pointed out the necessity for the exercise of good judgment on the part of member banks in granting credits and the necessity of wise discrimination on their part on essential, less essential and non-essential paper, it has not undertaken to define or to give any expression of its views as to what constitutes essential paper, but on the other hand has distinctly stated that this is a matter which should be left for local determination upon the theory that individual banks are intimately acquainted with the industrial, agricultural and commercial requirements of their respective communities and are better qualified than anyone else to pass upon the essential character of loans offered."

## Complex Problem.

Whatever the Reserve Board ultimately determines to do in the premises there is no doubt but that the executive heads of the country's commercial banks are having the time of their lives in conciliating their customers that thousands of loans are being made. During the war it was comparatively easy to distinguish between undertakings essential to winning the war and those not directly related to the Government's participation in the war. With the war ended and banks financing large reconstruction loans, besides those required for the rehabilitation of railroads and prompt marketing of crops, it has become a serious problem to differentiate satisfactorily and for the good of whole communities or whole sections. The situation has been made worse by freight congestion and inability of merchants to liquidate loans being made for marketing of merchandise lost on railroad sidings.

switches or crossroads hundreds of miles from destination. In that manner many millions of dollars of credit which would have been employed productively have been frozen fast, to the detriment of the commercial loan market and the country's bank position. That congestion is not the menace that it was, owing to efforts of the Interstate Commerce Commission to rush equipment to areas where it was most needed and keep freight moving everywhere. But conditions still are far from normal, as railroads had 25,000 more bad order cars to handle at the end of the month than they had at the time that the transportation industry passed under Federal control in the closing days of 1917.

The railroads will soon get increased freight rates to compensate them for

large advances in wages which the Central Labor Board will announce next week. It is not known what the advance will be, but as the law stipulates that the revenue collected be sufficient to give the roads an income of at least 5 1/2 or 6 per cent. on their property value it is apparent that carriers must be liberally compensated for whatever increase in rush equipment is necessary to make. Quiet buying of railroad securities for considerable time has been based on the belief that roads would prosper well under the new law and that they would be permitted to earn a sufficient margin of profit to safeguard their property and insure the solvency of their outstanding securities. Whatever may be the basis for that view it is apparent that the transportation in-

dustry's position is much better than it was before the present railroad law was enacted. American roads may be expected to give a good account of themselves after they have been put in good physical condition and have been given sufficient equipment to enable them to handle expeditiously the vast volume of business that the country offers. That is reason, therefore, to take a fairly hopeful view of the outlook and to expect some continuance of the present activity of rails. With living expenses as high as they are it is natural that investors should demand an exceptional income return and, in addition, should insist on protection of principal and other safeguards not demanded in normal times. The credit strain is by no means over, but the country will

emerge from it all right in the end and with its national wealth largely increased through a favorable course of harvest which now seems practically assured. It is surely a situation which should command the careful attention of the hard-headed investor that he may be certain of taking advantage of the extraordinary investment opportunity in the memory of the living.

## Describes Liberty Issues.

A pocket sized chart on Government war loans, issued by the National City Company, contains a complete description of the original and converted issues of Liberty bonds and Victory notes and shows their conversion privileges and tax exemption features. Titles from a wide range of prices are also shown.

## TOTAL TRANSACTIONS IN THE NEW YORK STOCK EXCHANGE

WEEK END, JULY 12, 1920.															
1920.				1919.				1918.				1917.			
Sales for Week.				Sales for Week.				Sales for Week.				Sales for Week.			
Range.	High.	Low.	Close.	Range.	High.	Low.	Close.	Range.	High.	Low.	Close.	Range.	High.	Low.	Close.
46 1/2	47 1/2	46 1/2	46 1/2	46 1/2	47 1/2	46 1/2	46 1/2	46 1/2	47 1/2	46 1/2	46 1/2	46 1/2	47 1/2	46 1/2	46 1/2
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